

# State of Colorado



## DPA

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August 1, 2003

Honorable Bill Owens  
Governor of Colorado  
136 State Capitol Building  
Denver, Colorado 80203

Honorable Senator Dave Owen  
Chair, Joint Budget Committee  
Colorado General Assembly  
200 East 14th Avenue  
Denver, Colorado 80203

Dear Governor Owens and Senator Owen:

When Governor Owens appointed me to this position nearly two years ago, I pledged to work toward a goal that had not been achieved in the State of Colorado since 1994: **To offer a competitive "total-compensation" salary, performance pay and health insurance benefits package to all Colorado state civil service employees.** Thanks to the bi-partisan efforts of the General Assembly and the Governor in passing the Spradley-Arnold Total Compensation Reform Act (H.B. 1316) last session, I am pleased to present you with a total-compensation recommendation that keeps this promise.

The 2004 Total Compensation Survey identified a total cost of \$92.6 million for the State to match all prevailing practices with respect to health benefits and wage adjustments. However, after carefully considering the financial position of the State budget, I recommend that the General Assembly appropriate \$47.5 million (\$27 million for general government general funds) in new dollars to partially implement the FY 2004-2005 annual compensation survey findings. The enclosed total-compensation recommendation does three vitally important things:

**First, the recommendation closes the gap between the State's health insurance program and what comparable public and private sector employers pay for their own employees' insurance.** As you know, health insurance benefits for Colorado state employees have fallen farther and farther behind the market over the past decade - to the point where our State reportedly now ranks in the bottom one-third in the nation in the percentage of what the State pays toward the cost of its employees' insurance premiums. This is plainly unacceptable.

Honorable Bill Owens  
Honorable Senator Dave Owen  
August 1, 2003  
Page 2

Indeed, had you and your colleagues not passed H.B. 1316, Colorado's percentage contribution would have fallen still further, to as low as 35 percent of the total cost in January 2005, which could cause Colorado to become the lowest of any state in the nation.

The recommendation enables the State of Colorado to come closer to achieving actual market parity with what comparable large Colorado employers pay for their employees' health insurance benefits by January 2006. Specifically, instead of paying as low as 49 percent of the total cost of our employees' health insurance premiums, as Colorado does now, the recommendation boosts the State's contribution for employees' insurance premiums starting in January 2005 to up to 77 percent of the total cost. Beginning in January 2006, I plan to recommend increasing the State's contribution to employees' insurance premiums still further to 85 percent of the total cost, which is the current prevailing level among Colorado employers.

Of the total appropriation of \$47.5 million, DPA will allocate \$33.2 million to group health benefit contributions for employees within the state personnel system. The recommendation translates into an average monthly financial benefit beginning in January 2005 of approximately \$334, or an annual total financial benefit of \$4,008, for state employees enrolled in the family plan. Some examples:

Projected HLD Contributions Had H.B. 1316 Not Passed				
	2005 State's Contribution	2005 State's Contribution Percentage	Weighted Average Employee's Contribution	2005 State's Weighted Average Premium Cost
Employee	\$180.88	46%	\$208.75	\$389.63
Employee + 1	\$260.41	38%	\$417.49	\$677.89
Family	\$358.10	35%	\$658.60	\$1,016.71

Recommended HLD Contributions Now That H.B. 1316 Has Been Passed				
	2005 State's Contribution	2005 State's Contribution Percentage	Weighted Average Employee's Contribution	2005 State's Weighted Average Premium Cost
Employee	\$299.86	77%	\$89.77	\$389.63
Employee + 1	\$498.92	74%	\$178.97	\$677.89
Family	\$692.07	68%	\$324.64	\$1,016.71

Dollar Value of Increased State Contribution Resulting From the Recommendations	
	Weighted Average Value to State Employees
Employee	Monthly: \$118.98; Annual: \$1,427.76
Employee + 1	Monthly: \$238.52; Annual: \$2,862.24
Family	Monthly: \$333.96; Annual: \$4,007.52

The State's current average 49 percent to 60 percent contribution levels lag the market significantly, as compared to 70 percent to 85 percent in the market. From calendar year 2002 to 2003, as a result of rising health care premiums, there was nearly a 10 percent drop in state employee health plan enrollment, or about 3,000 employees. As it stands now, Colorado has a large and growing number of state employees who can no longer afford their financial portion of the health care services required for their specific illnesses. The recommendation is intended to address this problem by making the State of Colorado more competitive as an employer in terms both of salary ranges and health benefits.

**Second, the recommendation keeps faith on all employees' salaries by shifting salary ranges upward.** DPA will allocate \$2.2 million of the total appropriation to this salary range adjustment. This means that no state employee will be paid lower than what the market survey of comparable public and private sector employers indicates. Despite challenging budget times, the recommendation ensures that Colorado's pay structure will keep pace with the market. If any employee falls below job-range minimum, his or her salary will be adjusted to the higher market level.

**Third, the recommendation provides the basic funding to begin to make Colorado's performance-based pay system *credible* – as the Legislature originally intended when it passed the Performance Pay Act.** The purpose of performance-based compensation is to recognize and motivate high-performing state employees who go above and beyond what their jobs require – not to insult them by “rewarding” them token pay awards. The State needs to do better by our employees – even in challenging budget times. The recommendation honors that commitment by refocusing salary increases that are specifically tied to individual employees' performance. DPA will allocate \$12.1 million to fund performance-based pay for state employees. This enables high-performing state employees to increase their take-home pay by substantial amounts as determined by their annual performance evaluations.

The objective is to provide that only high-performing employees (rated at levels three or four) are eligible for any performance pay increases. This will help ensure that limited performance pay dollars are not spread out among all employees, regardless of their performance ratings, and watered-down at the expense of higher achievers.

The recommendation has several implications:

1. **It prioritizes health insurance benefits over individual employee salary and performance pay increases.** This is in keeping with my personal commitment to the state workforce at more than 150 town-hall meetings and over the Internet. I recognize that some people will not like my recommendation, and I respect their position. But while by no means perfect, the recommendation does offer the greatest total economic benefit to state employees, especially those in lower-paying jobs. The following chart shows that lower-paid civil servants – the majority of our workforce – gain the most from the recommendation. But it also shows that all employees covered by the State's insurance plans will benefit:

Value, in Terms of Percent to Average Employee's Wage, to Employees as the Results of the Recommendations				
	Average For Employees Earning Less Than \$25,000 Annually	Average For Employees Earning Between \$25,000 - \$50,000 Annually	Average For Employees Earning Between \$50,000 - \$75,000 Annually	Average For Employees Earning Higher Than \$75,000 Annually
Employee	5.02%	2.94%	1.86%	1.27%
Employee + 1	10.92%	6.25%	4.00 %	2.72%
Family	15.14%	8.50%	5.54%	3.78%

2. **Not every state employee will benefit *directly* from the health insurance recommendation, but most will. And each and every employee benefits *indirectly*.** Today, roughly 67 percent of state employees are enrolled in one of the State's health insurance plans. Currently, more than 10,000 eligible employees are not covered under the State's plans. Colorado continues to rank low among all state governments in its insurance contribution (46<sup>th</sup> out of 47 reporting states for single plans and 39<sup>th</sup> among 44 reporting states for family plans, according to Workplace Economics, Inc.) and the top third in its average pay (U.S. Bureau of Labor Statistics). The recommendation enables Colorado to reach the prevailing health insurance premium contribution levels over the next two years – what the State pays each of us for our health insurance as our employer – which will help to increase the number of state employees who are able to afford health insurance for themselves and their families. As noted above, record numbers of employees have dropped our health plans in recent years as our benefits have fallen well below competitive market levels.

Based on a statewide survey that DPA recently conducted on health insurance benefits, we expect many of those employees to return to the state plan as the State transitions to more competitive benefits. Still other employees who have never taken the State's insurance are expected to join. This incidentally will help the communities across Colorado, in urban, suburban and rural areas, that are currently providing medical services to uninsured State of Colorado employees.

3. **The recommendation will also help the State attract and retain qualified employees – a chronic problem for Colorado's state workforce as last month's Legislative Audit Committee report points out.** This provides an indirect benefit to each and every state employee in the classified system as well as to the citizens of Colorado. All told, the recommendation anticipates that the total percentage of state employees enrolled in our health plans will rise to about 75 percent by January 2006 as the State transitions to market-competitive insurance benefits.
4. **After filling the gap in the group-benefit plan contributions, the recommendation's next priority is to adjust the pay structure itself so pay ranges remain competitive with the market.** I would allocate \$2.2 million (all funds) to adjust salaries for those employees whose salaries are below the new range minimums. It is critical that the pay structure remains competitive or the number of employees paid below prevailing wage will grow quickly and we will face severe recruitment and retention problems.
5. **This is a recommendation for tough economic times.** Once the State has closed the 10-year gap in offering competitive health insurance benefits to all employees – and as State revenues grow stronger – we strengthen our focus on further increasing individual performance-based salaries so that employees can move upward through the salary ranges. As discussed above, achieving prevailing state contributions for health insurance premiums will require two years of funding increases. Looking toward Fiscal Year 2007, DPA plans to concentrate more closely on performance-based salary adjustments for employees, including those for employees rated at level 2 (proficient) as well as providing increases for employees at the two high-performing levels.


The following table summarizes the costing for this \$47.5 million total allocation. According to statute, the new dollars allocated for the employees in the state personnel system cannot be used toward the group benefit contribution dollars for non-classified employees who, by statute, are eligible to participate in group plans. These non-classified eligible employees include the employees from the Judicial Department and the Legislature. The additional estimated cost for the non-classified group benefit item is about \$3.6 million.

Honorable Bill Owens  
Honorable Senator Dave Owen  
August 1, 2003  
Page 6

<b>Compensation Components - All Funds</b>	<b>Subtotal</b>	<b>General Gov</b>	<b>Higher Ed</b>
Contributions to Group benefit Plans	\$33,170,801	\$26,146,386	\$7,024,415
Salary Cost to Bring to New Range Minimums	\$2,190,216	\$1,983,588	\$206,628
Performance Awards	\$12,152,266	\$10,890,893	\$1,261,373
Total for Classified Employees Only	\$47,513,283	\$39,020,867	\$8,492,416

Perhaps the greatest strength of H.B. 1316 is that it depends upon the collaboration between the legislative and executive branches of state government to meet our respective responsibilities to Colorado's remarkably talented and diverse workforce. I look forward to working with you in the months ahead as we enact Colorado's compensation policy, "to provide prevailing total compensation to officers and employees in the state personnel system to ensure the recruitment, motivation, and retention of a qualified and competent workforce." C.R.S. 24-50-104 (1)(a)(I). The entire report is published on the DPA website at <http://www.colorado.gov/dpa/>. Thanks again and best regards.

Respectfully yours,



Troy A. Eid  
Executive Director

cc: State legislators, cabinet members, and higher education presidents

Attachment: FY 2004-2005 Annual Compensation Survey Findings